



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Department of Corrections

*For the Two Fiscal Years Ended
June 30, 2010*

SEPTEMBER 2010

LEGISLATIVE AUDIT
DIVISION

10-15

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LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
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Deputy Legislative Auditors
James Gillett
Angie Grove

September 2010

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report for the Department of Corrections for the two fiscal years ended June 30, 2010. This report contains eight recommendations related to advance payments, approval of payroll, abatements, expenditure misstatements, internal service fund rates, testing of internal controls, and noncompliance with state laws. The department's response to the audit recommendations begins on page B-1, at the end of the audit report.

We thank the director and his staff for their assistance and cooperation throughout the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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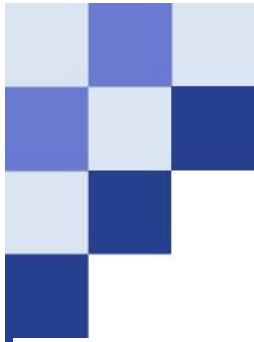
APPOINTED AND ADMINISTRATIVE OFFICIALS

Director's Office	Mike Ferriter, Director
Health, Planning, & Information Services Division	Gary Hamel, Division Administrator
Administrative & Financial Services Division	Rhonda Schaffer, Division Administrator
Community Corrections	Pam Bunke, Division Administrator
Youth Corrections	Steve Gibson, Division Administrator
Secure Custody Facilities	Mike Mahoney, Warden, Montana State Prison Jo Acton, Warden, Montana Women's Prison
Human Resources	Steve Barry, Division Administrator
Montana Correctional Enterprises	Gayle Lambert, Division Administrator

		<u>Term Expires</u>
Board of Pardons and Parole	Michael E. McKee, Chair	1/1/2011
	Margaret Hall-Bowman, Member	1/1/2014
	Darryl Dupuis, Auxiliary Member	1/1/2014
	Samual Lemaich, Auxiliary Member	1/1/2013
	Teresa McCann-O'Connor, Auxiliary Member	1/1/2013
	John Rex, Member	1/1/2011
	John Ward, Auxiliary Member	1/1/2013

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FINANCIAL-COMPLIANCE AUDIT

Department of Corrections

For the Two Fiscal Years Ended June 30, 2010

SEPTEMBER 2010

10-15

REPORT SUMMARY

The Department of Corrections (department) manages approximately 13,000 male and female offenders through secure-care facilities, pre-release centers, probation and parole, revocation centers, and treatment programs. Ninety percent of the department's funding to manage offenders is from the General Fund. This equates to approximately \$167 million in expenditures; which is 10 percent of the total state General Fund expenditures. The remaining department funding is primarily through fees charged for products produced and sold by prison programs.

Context

The department promotes public safety and trust by holding adult and juvenile offenders, referred by the courts, accountable for their actions against victims through custody, supervision, treatment, work, restitution, and skill development. Skill development includes various programs at the prisons such as carpentry, a print and sign shop, dog training program, ranching, dairy operations, lumber processing, fire fighting, motor vehicle maintenance, and cooking. The department supervises offenders through five prisons, three youth facilities, seven treatment programs, three assessment and sanction centers, and six prerelease centers.

Results

The audit resulted in eight recommendations to the department; of which four relate to operations under Montana Correctional Enterprises at the prison in Deer Lodge.

Five of the eight recommendations are a result of noncompliance with state law. Two recommendations are related to internal controls. The noncompliance with state law recommendations include payments from the treasury which were not in accordance with a section of the constitution, an internal service fund rate that was not approved, and not adopting rules. One of the internal control recommendations discusses a relationship that allowed a husband and wife to approve each other's time.

Recommendation Concurrence	
Concur	7
Partially Concur	0
Do Not Concur	1
Source: Agency audit response included in final report.	

Chapter I – Introduction

Introduction and Scope

We performed a financial-compliance audit of the Department of Corrections for the two fiscal years ended June 30, 2010, to meet the following objectives:

1. Obtain an understanding of the department's control systems to the extent necessary to support our audit of the department's financial schedules and, if appropriate, make recommendations for improvement in the internal and management controls of the department.
2. Determine whether the department has complied with selected laws and regulations.
3. Determine the implementation status of audit recommendations made in the previous audit report.
4. Determine whether the department's financial schedules for each of the two fiscal years ended June 30, 2010, fairly present the results of operations, in accordance with state accounting policy.

In accordance with §5-13-307(2), MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations in this report. Other areas of concern deemed not to have a significant effect on the successful operation of department programs are not specifically included in the report but have been discussed with management.

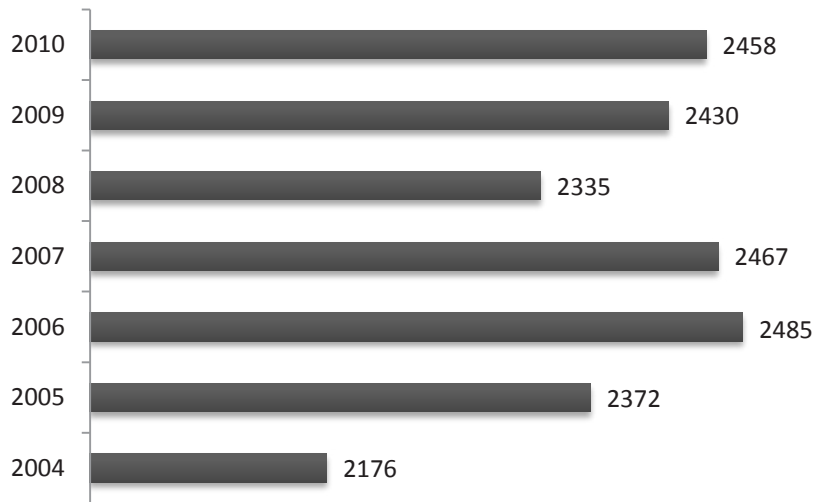
As required by §17-8-101(6), MCA, we reviewed and are reporting on the reasonableness of Internal Service Fund fees and fund equity balances at the department. We reviewed the Internal Service Fund activity of the department's three internal service funds. We found the fees charged and fund balance to be reasonable for one of the three funds. We found the fund balance to be reasonable for a second fund; however, we noted not all rates had been approved for this fund. This is addressed in recommendation 5. A third internal service fund was new as of January 2010. This fund was provided start up costs. Based on the limited amount of time this fund has been in place and the start up costs which were not funded through user fees, it is not possible to provide an analysis of fees and fund balance at this time.

Background

The Department of Corrections promotes public safety and trust by holding adult and juvenile offenders accountable for their actions against victims through custody, supervision, treatment, work, restitution, and skill development.

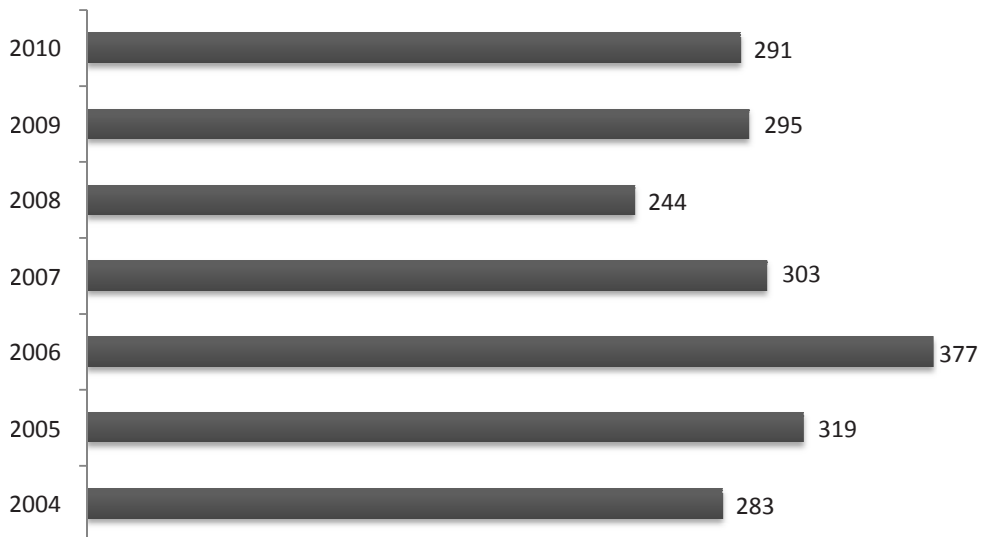
As of June 30, 2010, the Department of Corrections adult male inmate population was 2,291 and the adult female inmate population was 167. Figures 1, 2, and 3 on the following pages demonstrate the trends in adult populations over the last seven years.

Figure 1
Department of Corrections Adult Inmate Population by Fiscal Year



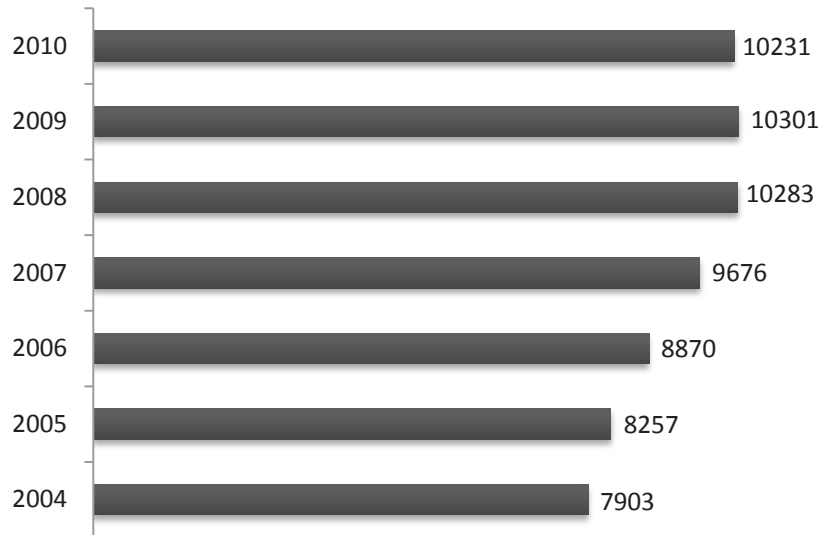
Source: Compiled by the Legislative Audit Division.

Figure 2
Department of Corrections Adult County Jail Population by Fiscal Year



Source: Compiled by the Legislative Audit Division.

Figure 3
Department of Corrections Adult Community Corrections Population by Fiscal Year



Source: Compiled by the Legislative Audit Division.

The adult secure-care system in Montana consists of Montana State Prison, Montana Women's Prison, regional prisons located in Cascade and Dawson, and a private prison located in Shelby. The adult secure-care system accounts for approximately 20 percent of offenders under the supervision of the department. The remaining 80 percent are in other programs such as prerelease centers, probation and parole, youth transition centers, boot camp, revocation centers, and treatment programs. The community corrections programs complement the department's secure operations. Table 1 depicts the programs and locations for the adult offender population for fiscal years 2007-08, 2008-09, and 2009-10. The following programs are abbreviated in the table:

- ♦ **TSCTC** – Treasure State Correctional Training Center
- ♦ **WATCH** – Warm Springs Addictions Treatment and Change
- ♦ **START** – Sanction, Treatment, Assessment, Revocation and Transition

Table 1
Department of Corrections Adult Population

	FY 2008	FY 2009	FY 2010
MALE PRISON			
Montana State Prison–Deer Lodge	1,391	1,416	1,455
Great Falls Regional Prison	143	150	150
Dawson County Regional Prison–Glendive	141	143	143
Crossroads Correctional Center–Shelby	495	536	543
TOTAL MALE PRISON	2,170	2,245	2,291
% Growth	-4%	3%	2%
FEMALE PRISON			
Montana Women's Prison–Billings	148	168	164
Intensive Challenge Program–MWP–Billings	17	17	4
TOTAL FEMALE PRISON	165	185	167
% Growth	-21%	12%	-9.6%
MALE JAIL HOLD/ASSESSMENT/PLACEMENT HOLD			
County Jails	78	123	120
Missoula Assessment and Sanctions Center	137	137	137
TOTAL MALE HOLD/ASSESSMENT	215	260	257
% Growth	-20%	21%	-1.2%
FEMALE JAIL HOLD/ASSESSMENT/PLACEMENT HOLD			
County Jails	16	20	20
Passage Assessment	13	15	14
TOTAL FEMALE HOLD/ASSESSMENT	29	35	34
% Growth	-15%	21%	-3.7%
ALTERNATIVES TO SECURE PLACEMENT/MANAGED BY COMMUNITY CORRECTIONS			
TSCTC Boot Camp (male)–Deer Lodge	54	54	54
START (revocations only)–Warm Springs	59	72	74
Passages Revocations–Billings	16	27	28
START Sanctions	24	16	15
Passages Sanctions	4	4	4
County Jail Sanctions	7	7	6
Connections Corrections (male)–Butte/Warm Springs	92	92	97
Passages ADT (female)–Billings	24	29	36
Meth Treatment (male)–Lewistown	81	83	84
Meth Treatment (female)–Boulder	40	40	38
Sex Offender Treatment–Location Pending			
WATCH Program (DUI)–male–Warm Springs/Glendive	129	130	142
WATCH Program (DUI)–female–Glendive	20	24	18
TOTAL ALTERNATIVES TO SECURE PLACEMENT	550	578	596
% Growth	35%	5%	2.9%
COMMUNITY CORRECTIONS–PRERELEASE/TRANSITIONAL LIVING			
Prerelease (male)	651	656	673
Prerelease Transitional Living Male	52	40	46
Prerelease (female)	138	132	163
Prerelease Transitional Living Female	8	7	12
TOTAL COMMUNITY CORRECTIONS–PRERELEASE/TRANSITIONAL LIVING	849	835	894
% Growth	5%	-2%	7.1%
COMMUNITY CORRECTIONS–INTENSIVE SUPERVISION/DAY REPORTING			
Intensive Supervision Program	309	323	332
Day Reporting	17	17	21
Number of ISP/DR officers	17	17	0
TOTAL INTENSIVE SUPERVISION	326	340	353
COMMUNITY CORRECTIONS–PROBATION & PAROLE			
Probation & Parole	8,451	8,413	8,262
Enhanced Supervision Program	107	135	127
Number of P&P Officers	113.5	117.5	126
TOTAL PROBATION & PAROLE	8,558	8,548	8,389
TOTAL ACTUAL ADULT ADP	12,862	13,026	12,979
% Growth	3.34%	1.28%	-.36%
Increase From Previous Year	416	164	(47)

Source: Compiled by the Department of Corrections.

The department operates the five programs described below in carrying out its mission:

Administration and Support Services

The Administration and Support Services program (113.50 FTE) includes the Director's Office; the Health, Planning, and Information Services Division; the Administrative and Financial Services Division; the Human Resources Division; and the administratively attached Board of Pardons and Parole. The Director's Office provides leadership and management support to all department facilities and divisions. The Director's Office also provides legal services, quality assurance, investigation, and victim's information. The Health, Planning, and Information Services Division includes the health services, information and business technology, and the planning management bureaus. The Administrative and Financial Services Division focuses primarily on agency budgeting, procurement, contracting, payroll processing, and other fiscal responsibilities. The Human Resources Division provides employee benefits, training and policy functions. The Board of Pardons and Parole oversees Montana's inmate parole and furlough programs. The board also reviews requests for executive clemency and makes recommendations to the Governor concerning those requests.

Community Corrections

The Community Corrections program (269 FTE) includes the supervision and alternative activities for adult offenders. This includes the Interstate Compact Unit, Adult Probation and Parole, Treasure State Correctional Training Center, Warm Springs Addiction Treatment and Change (WATCH) DUI facility, methamphetamine treatment facilities, the Adult Prerelease Unit, the Sanction, Treatment, Assessment, Revocation and Transition (START) program for those who violated conditions of community placement, and programs to divert offenders from prison. Community Corrections provides supervision for approximately 80 percent of the adult offenders in the state correctional system.

Youth Services

The Youth Services Division (209 FTE) includes expenditures for all state operated youth programs, including the Pine Hills Youth Correctional Facility in Miles City, Riverside Youth Correctional Facility in Boulder, and Youth Community Corrections Bureau, including parole services and a youth transition center. The program is also responsible for administering the Juvenile Interstate Compact for youth on probation or parole, licensing juvenile detention facilities, and juvenile placement related financial services.

Secure Custody Facilities

The Secure Custody Facilities program (703.04 FTE) includes the Montana State Prison (MSP) in Deer Lodge, Montana Women's Prison (MWP) in Billings, and contract facilities, which include Crossroads Correctional Center in Shelby, Dawson County Correctional Facility in Glendive, and Cascade County Regional Prison in Great Falls. These facilities provide for the custody, treatment, training, and rehabilitation of 20 percent of the adult offenders in the state correctional system.

Montana Correctional Enterprise

The Montana Correctional Enterprises (MCE) program (66 FTE) is responsible for the following programs:

- ♦ **Industries** - includes furniture, upholstery, print, sign, laundry, and wag bag assembly at Montana State Prison; and sewing and embroidery, heat transfers, hygiene kit assembly, custom lanyard manufacturing, bow sight assembly, gun sling assembly and packaging, and oversight of the Prison Paws for Humanities Dog Training Program at Montana Women's Prison. In addition, the Industries program operates the Montana State Prison Hobby store located in Deer Lodge. The Industries program sells products and services to governmental agencies and nonprofit organizations, and through a dealer network and contracts.
- ♦ **Agriculture** - includes beef and dairy cattle, crops, feedlot, dairy milking parlor, dairy processing, lumber processing, wild land fire crew, and community worker program, all located at the Montana State Prison facility. Dairy products are sold to governmental agencies and nonprofit organizations, and through contracts. Agriculture products are sold on the open market.
- ♦ **Vocational Education** - operates a motor vehicle maintenance shop, custom Toyota Training Cutaway operation, the driver's licensing program, and vocational education classrooms. Products and services are sold to governmental agencies and nonprofit organizations, and through contracts.
- ♦ **Food Factory** - operates a cook/chill operation and bakery, which provide food products to various institutions and nonprofit organizations.
- ♦ **Canteen** - provides commissary items to inmates at the Montana State Prison, Montana Women's Prison, Elkhorn Treatment Center, and the Dawson County Correctional Facility, and the Crossroads Correctional Center in Shelby.
- ♦ **License Plate Factory** - provides over 125 different types of license plates to the Department of Justice Motor Vehicle Division.

Prior Audit Recommendations

Our previous audit report for the department, covering the two fiscal years ended June 30, 2008, contained 14 recommendations. The department concurred with

all 14 of the recommendations. Of these, the department implemented 10 of the recommendations, partially implemented three of the recommendations, and did not implement one recommendation. The recommendations not fully implemented and still applicable are further discussed below.

Internal Controls – The prior audit report recommended the department complete implementation of state accounting policy concerning internal controls. The department has not yet performed any testing of its controls. This is further discussed on page 14.

Contracts – The last several audit reports have included recommendations related to contracts at the department. Due in part to these recommendations, a performance audit (09P-08) was performed by our office and issued in February 2010 which addressed contracting issues at the department. Because of this other audit we make no further recommendations in this report. However, this matter is subject to review during the next audit.

Internal Service Fund Rates – The prior two audits contained recommendations related to unapproved rates charged by the cook/chill internal service fund. During the current audit we found one of the rates charged still has not been approved by the legislature. This is discussed further at on page 14.

Administrative Rules – The prior audit included a recommendation to adopt rules as required by three separate state laws. Rules were not adopted in all cases and an additional law requiring rules was noted during the current audit. This is discussed further on page 16.

Chapter II – Findings and Recommendations

Advance Payments

Cash was disbursed from the treasury prior to the expenditures going against an appropriation.

The department has entered into contracts with four prerelease and two methamphetamine centers that require the department to make a bond payment to the bond trustee on behalf of the centers. The department pays the trustee by using an advance (asset) account which does not go against an appropriation. The department recovers 1/12th of the bond payments each month as the centers bill the department for room and board charges of occupants in the custody of the department housed at the centers. The centers submit invoices and the department records expenditures for the entire invoice, but only pays the centers the amount billed less 1/12th of the bond payment made on their behalf. As a result of the flow of funds, expenditures are recorded against an appropriation when the costs are recovered. The chart below depicts this flow of funds.

Table 2
Example Activity for One Center

	Cash Paid for Bond Payment	Room and Board Expenditures Billed*	Cash Paid to Center for Room and Board	Expenditures Less Cash Paid (Cash Recovered)
July	\$384,697	\$153,875	\$121,817	\$32,058
August		\$155,625	\$123,567	\$32,058
September		\$149,375	\$117,317	\$32,058
October		\$156,625	\$124,567	\$32,058
November		\$148,000	\$115,942	\$32,058
December		\$153,750	\$121,692	\$32,058
January		\$154,750	\$122,692	\$32,058
February		\$143,250	\$111,192	\$32,058
March		\$149,375	\$117,317	\$32,058
April		\$152,143	\$120,084	\$32,058
May		\$127,260	\$95,202	\$32,058
June		\$125,240	\$93,182	\$32,058
TOTAL	\$384,697	\$1,769,268	\$1,384,571	\$384,697

*Amount of expenditures recorded on SABHRS equals amount billed.

Source: Compiled by the Legislative Audit Division

The Montana Constitution, Article VIII, Section 14 states "... no money shall be paid out of the treasury unless upon an appropriation made by law..." Since the bond payments are due in August and the payments are recovered 1/12th each month, money is paid out of the treasury up to 11 months before an appropriation is actually charged, which violates the constitution. In fiscal years 2008-09 and 2009-10, bond payments from the treasury totaled approximately \$3.1 and \$3.3 million, respectively.

State accounting policy does allow the use of an advance account to remove money from the treasury; however, it states authorization from the legislature should be obtained to use the advance account. Department personnel stated they consider the legislature approval of the department to have prerelease and drug treatment centers and appropriation authority for community corrections as approval to provide advances.

Since the department did not have approval for an advance and money left the treasury in advance of an appropriation being charged, the department is not in compliance with the constitution or state accounting policy

RECOMMENDATION #1

We recommend the department pay the bond payment through an appropriation as required by the Montana Constitution or request legislative approval to use an advance.

Payroll Approval

A husband and wife employed by the department were allowed to approve each other's timesheets.

State government is a major employer in many communities throughout Montana, and in some cases, is the primary employer, which creates employment or personal relationships that increase internal control risk. Departments within state government should have policies and procedures for identifying and/or reporting such relationships and adjusting job roles to remove or mitigate the risk associated with such relationships.

State accounting policy addresses this issue by stating management is responsible for establishing and maintaining agency internal controls. Internal control is defined as a coordinated set of policies and procedures used by managers and line workers to ensure that their agencies, programs, or functions operate efficiently and effectively in

conformance with applicable laws and regulations, and that the related transactions are accurate, properly recorded and executed in accordance with management's directives.

During the audit we found one instance where internal controls were not in place to ensure transactions were accurate. We noted an instance where a husband and wife were allowed to approve each other's timesheets. While we were not able to determine if any time approved was inaccurate, allowing such a relationship can result in inaccurate or fraudulently reported time.

Department management stated they were aware of the husband and wife relationship, however they were not aware of the time approval issue until we asked for the internal controls that were in place to mitigate any risks this relationship created. Department management further stated this was a unique situation in the fact the employees are under the supervision of the Board of Pardons and Parole and the issue arose when one of the employees was promoted.

We further reviewed the addresses of all staff employed by the department and found 68 instances where two or more employees shared the same address. Although the department was aware of all of these relationships when asked, these relationships were not documented. Relationships such as these increase risk of fraudulent transactions if the job duties of any of these employees change unless policies or procedures are developed to address this risk.

Even though our audit was not able to identify any fraudulent transactions, the number of potential relationships identified, as well as the instance of timesheet approval identified, increases the risk that fraudulent transactions exist. The department should implement policies and procedures to identify, document, and detect these relationships in a timely manner.

RECOMMENDATION #2

We recommend the department:

- A. *Implement procedures to identify and document relationships among department employees*
 - B. *Develop policies to ensure job roles are adjusted to mitigate the risk associated with relationships between department employees.*
-

Budget Amendments

The department recorded an expenditure and revenue abatement to prevent overspending its appropriation authority.

The prior audit found instances where the department overspent its appropriation authority and the report contained a recommendation for the department to provide budget training to its fiscal staff. During the current audit, we found an instance where the department prevented overspending its authority by decreasing expenditures and revenues rather than processing a budget change document.

The motor vehicle maintenance internal service fund accounts for activities related to vehicle repairs and charges rates based on the cost of parts, supplies and labor. This activity is part of the inmate labor and training program.

In fiscal year 2008-09, the department estimated the fund's expenses were going to exceed the fund's authority by approximately \$107,000. Although a budget change document could have been processed under §17-7-402(1)(a)(vi), MCA, the department instead abated \$107,000 in expenditures and revenues and treated this activity as direct purchases of parts and supplies by the ranch program. State accounting policy does not allow expenditure abatements for this reason.

Department personnel noted they had contacted the Office of Budget and Program Planning (OBPP) in the past and were told they could not process a budget change document to spend revenue in excess of their authority for this fund. While it is true a budget change document could not be processed under §17-8-101(8), MCA, which is the general law related to budget amendments, a more specific state law section related only to the department, §17-7-402(1)(a)(vi), MCA, does allow budget changes for this fund.

The error identified above indicates there is still a lack of knowledge concerning budget laws applicable to the department. In the case above, the department could have submitted a budget change document to OBPP if they were aware of the law that allowed them to do so.

RECOMMENDATION #3

We recommend the department:

- A. *Provide training to fiscal staff on budget laws applicable to the department.*
 - B. *Comply with state accounting policy on expenditure abatements.*
-

Expense Misstatements

The department recorded entries that resulted in errors to expense balances.

Montana Correctional Enterprises includes an industries program to employ inmates. Industry programs include such activities as building furniture, upholstery, embroidery, a print shop, a sign shop, and the prison ranch. Each of these activities is accounted for on the state's accounting records using a separate identifier.

The industries program purchases supplies and materials for the activities so they are available as they are needed. At the time of purchase, the expenses are coded to the correct account and a general industries identifier. As the activities need the materials, the industries program moves the expense from the general identifier to the specific identifier associated with the activity using the materials.

In both fiscal years, 2008-09 and 2009-10, the department used a generic expense account rather than the specific expense account originally recorded when backing out the expense from the general identifier. As a result, the generic expense account has a negative balance on the state's accounting records and numerous specific expense accounts are overstated. Department personnel stated the activity is recorded this way so that there are not multiple expense accounts with negative balances. See the Table 3 for misstatements on the Schedule of Expenditures & Transfers-Out in the Montana Correctional Enterprises program.

Using a generic expense account to account for all the materials used by the activities does not accurately reflect on the state's accounting records

the department's receipt, use, and disposition of money and property the department is accountable for as required by §17-1-102(4), MCA.

Table 3
Over and (Under) Expenditure Misstatements

	FY 2009	FY 2010
Supplies and Materials	\$ 85,975	\$ 66,207
Repair & Maintenance	557	197
Goods Purchased for Resale	(86,532)	(66,404)
Total Expenditure Misstatements	\$ 0	\$ 0

Source: Compiled by the Legislative Audit Division.

RECOMMENDATION #4

We recommend the department accurately reflect expenses for industry program purchase and use of materials.

Internal Service Fund Rates

The department is assessing internal service fund charges that were not approved in the general appropriations bill by the 2009 Legislature.

Our prior two audit reports contained recommendations that the department comply with state law concerning the approval of internal service fund fees. For at least the last five years the department's cook/chill operation has assessed fees for their bulk food. Rates for bulk food were not approved as required by §17-7-123(l)(f)(ii), MCA.

The department included all of its proposed cook/chill fees and charges in the budget request for the 2011 biennium. Additionally, according to department and Legislative Fiscal Division personnel, all fees and charges were approved in a legislative committee hearing. However, the bulk food rate was not included in the general appropriations act. Therefore, these charges were not approved by the 2009 Legislature and cannot be assessed legally as the above statute prohibits fees and charges from exceeding the level approved by the legislature.

The department should monitor the progression of the general appropriations bill to ensure its internal service fund charges and fees approved by the legislative committee are included for the legislature's consideration and approval.

RECOMMENDATION #5

We recommend the department monitor the progression of the general appropriations bill to ensure the bulk food rates are included.

Internal Control Structure

The department has not fully implemented state accounting policy concerning testing of major internal control systems.

The prior audit report recommended the department complete its implementation of state accounting policy concerning internal controls. In the last two years the department has continued to make strides toward implementing the policy including developing an Internal Control Evaluation and Monitoring Plan that was effective January 1, 2010.

Although the Internal Control Evaluation and Monitoring Plan includes controls for all major department activities and some monitoring was completed, the department has yet to complete any testing of the internal controls. When controls are not tested for their effectiveness, there is an increased risk errors and irregularities will occur and not be detected and corrected in a timely manner or the department will not be in compliance with its own internal control procedures. Additionally, without testing, the department has no way of knowing if controls are designed or performed properly to know whether they are preventing or detecting errors.

Department personnel stated turnover in the Compliance Monitoring Unit supervisor position, which was vacant from May 2009 through June 2010, contributed to the department not testing internal controls during the audit period.

RECOMMENDATION #6

We recommend the department complete its implementation of internal control procedures by testing its internal controls, as required by state accounting policy.

Weed Management Agreement

The department is not in compliance with state law regarding weed management on prison grounds.

Section 7-22-2151, MCA, requires the department to enter into a written agreement with a district weed board. Our audit found several instances where the written weed management plan does not comply with requirements of this law. These are as follows:

- ♦ The plan does not specify the mutual responsibilities of the department and the weed district.
- ♦ The plan does not contain a provision for requiring a biennial performance report by the district weed board regarding the success of the plan. A performance report was completed in fiscal year 2008-09, however the report was prepared by the department, rather than the district weed board, and there was no evidence the district agreed with the report.
- ♦ The plan is updated every five years rather than biennially.

The department explained the position responsible for the weed management plan has turned over twice in the past two years and was vacant for a short period. Department personnel further explained that the prison has sole responsibility for managing weeds

on the ranch property and they do not receive any assistance from the weed district. If the plan contained the responsibilities of the department and the weed district and was updated timely, it is possible the department and the district weed board could share some of the responsibilities for managing the weeds on ranch property.

RECOMMENDATION #7

We recommend the department comply with state law concerning a weed management agreement with the district weed board.

Administrative Rules

The department did not adopt administrative rules relating to monitoring of sexual offenders and day reporting programs.

Section 46-23-1010(2), MCA, enacted by the 2005 Legislature and effective July 1, 2005, requires the department to adopt rules for the establishment and operation of a continuous, satellite-based monitoring of sexual offenders designated as level 3 offenders, including rules establishing supervisory fees. Department personnel stated during the last audit they were in the process of developing the rules and subsequent program policies, and personnel planned to address the supervisory fees during the next legislative session. At that time, since other programs and facilities were considering using the monitoring system, rules were not finalized. Department personnel further stated rules were drafted in October of 2007, but were not approved by the appropriate program until August of 2009. Since there are only two level 3 sex offenders who would fall under the rules, completing the rules process is a lower priority.

Section 53-1-203(5), MCA, requires the department to adopt rules for day reporting programs including requirements for daily check-in, participation in programs to develop life skills, and the monitoring of compliance with any conditions of probation. Although this section of the law was effective July 1, 2006, the department has yet to adopt rules as required. Department personnel stated rules have not yet been drafted because they only have one day reporting program.

The above statutes both relate to offenders who are no longer in secure facilities. The rulemaking process allows for public comment which helps address the public's concern for safety as offenders transition back into society.

RECOMMENDATION #8

We recommend the department adopt rules related to monitoring level 3 sexual offenders and day reporting programs as required by state law.

Independent Auditor's Report and Department Financial Schedules

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
James Gillett
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Corrections for each of the fiscal years ended June 30, 2010, and 2009. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express opinions on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in note 1, these financial schedules are prepared on the basis of Montana state accounting policy, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities, and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances and property held in trust of the Department of Corrections for each of the fiscal years ended June 30, 2010, and 2009, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

August 25, 2010

DEPARTMENT OF CORRECTIONS
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund
FUND BALANCE: July 1, 2009	\$ (12,644,216)	\$ 3,621,509	\$ (3,485)	\$ 11,595,525	\$ 3,150,725	\$ 0
PROPERTY HELD IN TRUST: July 1, 2009						\$ 741,680
ADDITIONS						
Budgeted Revenues & Transfers-In	114,977	4,473,490	812,713	6,264,243	5,196,632	
Nonbudgeted Revenues & Transfers-In	20,461	1,485		38,396		
Prior Year Revenues & Transfers-In Adjustments	13,732	42,489		1,131	14,653	
Direct Entries to Fund Balance	172,072,567	63,613	1,366,696	(75,000)		3
Additions to Property Held in Trust						7,407,935
Total Additions	<u>172,221,737</u>	<u>4,581,077</u>	<u>2,179,409</u>	<u>6,228,770</u>	<u>5,211,285</u>	<u>7,407,938</u>
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	167,410,176	5,110,875	2,177,223	6,311,675	4,100,309	
Nonbudgeted Expenditures & Transfers-Out				134,553	251,871	
Prior Year Expenditures & Transfers-Out Adjustments	(273,400)	8,156		16,318	7,353	
Reductions in Property Held in Trust						7,459,545
Total Reductions	<u>167,136,776</u>	<u>5,119,031</u>	<u>2,177,223</u>	<u>6,462,546</u>	<u>4,359,533</u>	<u>7,459,545</u>
FUND BALANCE: June 30, 2010	\$ (7,559,255)	\$ 3,083,555	\$ (1,299)	\$ 11,361,749	\$ 4,002,477	\$ 3
PROPERTY HELD IN TRUST: June 30, 2010						\$ 690,070

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF CORRECTIONS
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund
FUND BALANCE: July 1, 2008	\$ <u>(15,116,337)</u>	\$ <u>2,792,671</u>	\$ <u>0</u>	\$ <u>12,225,287</u>	\$ <u>3,548,398</u>	\$ <u>0</u>
PROPERTY HELD IN TRUST: July 1, 2008						\$ <u>480,968</u>
ADDITIONS						
Budgeted Revenues & Transfers-In	237,125	4,503,720	673,676	6,471,112	3,886,516	
Nonbudgeted Revenues & Transfers-In	6,177	8,265		36,376		
Prior Year Revenues & Transfers-In Adjustments	(96,022)	13,511		112,315		
Direct Entries to Fund Balance	168,331,592	67,341	12,471	(19,341)	(2,681)	
Additions to Property Held in Trust						7,372,399
Total Additions	<u>168,478,872</u>	<u>4,592,837</u>	<u>686,147</u>	<u>6,600,462</u>	<u>3,883,835</u>	<u>7,372,399</u>
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	166,319,509	3,779,166	689,632	9,580,298	4,077,370	
Nonbudgeted Expenditures & Transfers-Out				(2,350,074)	204,138	
Prior Year Expenditures & Transfers-Out Adjustments	(312,758)	(15,167)				
Reductions in Property Held in Trust						7,111,687
Total Reductions	<u>166,006,751</u>	<u>3,763,999</u>	<u>689,632</u>	<u>7,230,224</u>	<u>4,281,508</u>	<u>7,111,687</u>
FUND BALANCE: June 30, 2009	\$ <u>(12,644,216)</u>	\$ <u>3,621,509</u>	\$ <u>(3,485)</u>	\$ <u>11,595,525</u>	\$ <u>3,150,725</u>	\$ <u>0</u>
PROPERTY HELD IN TRUST: June 30, 2009						\$ <u>741,680</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF CORRECTIONS
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Taxes	\$ 5,150	\$ 1,485				\$ 6,635
Charges for Services		1,751,263		\$ 36,416		1,787,679
Fines and Forfeits		2,917				2,917
Sale of Documents, Merchandise and Property		1,887,288		6,267,354	\$ 5,211,285	13,365,927
Contributions and Premiums	18,753					18,753
Grants, Contracts, and Donations		603,345				603,345
Transfers-in		263,143	\$ 446,814			709,957
Federal Indirect Cost Recoveries	35,269					35,269
Miscellaneous	89,998	8,023				98,021
Federal			365,899			365,899
Total Revenues & Transfers-In	149,170	4,517,464	812,713	6,303,770	5,211,285	16,994,402
Less: Nonbudgeted Revenues & Transfers-In	20,461	1,485		38,396		60,342
Prior Year Revenues & Transfers-In Adjustments	13,732	42,489		1,131	14,653	72,005
Actual Budgeted Revenues & Transfers-In	114,977	4,473,490	812,713	6,264,243	5,196,632	16,862,055
Estimated Revenues & Transfers-In	227,700	4,750,717	1,825,889	7,222,567	4,947,000	18,973,873
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (112,723)	\$ (277,227)	\$ (1,013,176)	\$ (958,324)	\$ 249,632	\$ (2,111,818)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Charges for Services		\$ 154,240		\$ 11,416		\$ 165,656
Fines and Forfeits		(17,083)				(17,083)
Sale of Documents, Merchandise and Property		(143,452)		(969,740)	\$ 249,632	(863,560)
Grants, Contracts, and Donations		(92,158)				(92,158)
Transfers-in	\$ (22,000)	(129,000)	\$ (6,551)			(157,551)
Federal Indirect Cost Recoveries	29,570					29,570
Miscellaneous	(120,293)	(49,774)				(170,067)
Federal			(1,006,625)			(1,006,625)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (112,723)	\$ (277,227)	\$ (1,013,176)	\$ (958,324)	\$ 249,632	\$ (2,111,818)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF CORRECTIONS
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Taxes	\$ 5,789	\$ 1,738			\$ 7,527	
Charges for Services		1,659,838		\$ 140,723		1,800,561
Sale of Documents, Merchandise and Property		1,774,249		6,479,080	\$ 3,886,516	12,139,845
Contributions and Premiums	16,681	7,591				24,272
Grants, Contracts, and Donations		642,315				642,315
Transfers-in		439,765	\$ 358,994			798,759
Federal Indirect Cost Recoveries	26,872					26,872
Miscellaneous	97,938					97,938
Federal			314,682			314,682
Total Revenues & Transfers-In	147,280	4,525,496	673,676	6,619,803	3,886,516	15,852,771
Less: Nonbudgeted Revenues & Transfers-In	6,177	8,265		36,376		50,818
Prior Year Revenues & Transfers-In Adjustments	(96,022)	13,511		112,315		29,804
Actual Budgeted Revenues & Transfers-In	237,125	4,503,720	673,676	6,471,112	3,886,516	15,772,149
Estimated Revenues & Transfers-In	83,462	4,362,746	890,066	6,319,000	3,910,000	15,565,274
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 153,663	\$ 140,974	\$ (216,390)	\$ 152,112	\$ (23,484)	\$ 206,875
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Charges for Services		\$ 143,457		\$ (1,592)		\$ 141,865
Sale of Documents, Merchandise and Property		(20,842)		153,704	\$ (23,484)	109,378
Grants, Contracts, and Donations		(23,485)				(23,485)
Transfers-in		41,844	\$ (14,196)			27,648
Federal Indirect Cost Recoveries	\$ 1,872					1,872
Miscellaneous	151,791					151,791
Federal			(202,194)			(202,194)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 153,663	\$ 140,974	\$ (216,390)	\$ 152,112	\$ (23,484)	\$ 206,875

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
 Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF CORRECTIONS
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	ADMIN & FINANCIAL SERVICES	ADULT COMMUNITY CORRECTIONS	MONT CORRECTIONAL ENTERPRISES	SECURE CUSTODY FACILITIES	YOUTH SERVICES	Total
Personal Services						
Salaries	\$ 5,342,459	\$ 10,932,976	\$ 2,967,562	\$ 26,933,311	\$ 8,079,858	\$ 54,256,166
Hourly Wages	657		573,206	353,109	34,301	961,273
Other Compensation	34,215					34,215
Employee Benefits	1,657,523	4,384,710	1,170,154	10,863,559	3,227,635	21,303,581
Personal Services-Other			2,630			2,630
Total	<u>7,034,854</u>	<u>15,317,686</u>	<u>4,713,552</u>	<u>38,149,979</u>	<u>11,341,794</u>	<u>76,557,865</u>
Operating Expenses						
Other Services	8,172,434	39,551,756	275,719	27,973,803	879,658	76,853,370
Supplies & Materials	899,297	712,572	2,431,718	5,374,784	959,401	10,377,772
Communications	885,702	238,457	49,633	139,221	63,255	1,376,268
Travel	105,770	141,357	21,836	144,808	85,915	499,686
Rent	541,510	1,874,772	72,905	232,078	246,949	2,968,214
Utilities		70,975	290,695	1,521,441	345,434	2,228,545
Repair & Maintenance	56,818	83,061	560,028	521,521	259,312	1,480,740
Other Expenses	117,988	99,513	1,008,175	249,315	73,737	1,548,728
Goods Purchased For Resale			4,766,016		3,165	4,769,181
Total	<u>10,779,519</u>	<u>42,772,463</u>	<u>9,476,725</u>	<u>36,156,971</u>	<u>2,916,826</u>	<u>102,102,504</u>
Equipment & Intangible Assets						
Equipment			13,679	233,574		247,253
Total			<u>13,679</u>	<u>233,574</u>		<u>247,253</u>
Capital Outlay						
Land & Interest In Land			10,235			10,235
Buildings			(10,235)			(10,235)
Total			<u>0</u>			<u>0</u>
Benefits & Claims						
From State Sources					3,302,178	3,302,178
From Federal Sources					11,698	11,698
Total					<u>3,313,876</u>	<u>3,313,876</u>
Transfers-out						
Fund transfers				720	2,865,951	2,866,671
Total				<u>720</u>	<u>2,865,951</u>	<u>2,866,671</u>
Other Post Employment Benefits						
Other Post Employment Benefits			166,940			166,940
Total			<u>166,940</u>			<u>166,940</u>
Total Expenditures & Transfers-Out	\$ <u>17,814,373</u>	\$ <u>58,090,149</u>	\$ <u>14,370,896</u>	\$ <u>74,541,244</u>	\$ <u>20,438,447</u>	\$ <u>185,255,109</u>
EXPENDITURES & TRANSFERS-OUT BY FUND						
General Fund	\$ 17,065,787	\$ 56,834,772	\$ 1,736,652	\$ 72,860,590	\$ 18,638,975	\$ 167,136,776
State Special Revenue Fund	592,080	963,900	1,779,927	559,444	1,223,680	5,119,031
Federal Special Revenue Fund	69,520	291,477	119,224	1,121,210	575,792	2,177,223
Enterprise Fund	48,405		6,414,141			6,462,546
Internal Service Fund	38,581		4,320,952			4,359,533
Total Expenditures & Transfers-Out	<u>17,814,373</u>	<u>58,090,149</u>	<u>14,370,896</u>	<u>74,541,244</u>	<u>20,438,447</u>	<u>185,255,109</u>
Less: Nonbudgeted Expenditures & Transfers-Out			386,424			386,424
Prior Year Expenditures & Transfers-Out Adjustments	136,430	(310,116)	26,703	(84,107)	(10,480)	(241,570)
Actual Budgeted Expenditures & Transfers-Out	<u>17,677,943</u>	<u>58,400,265</u>	<u>13,957,769</u>	<u>74,625,351</u>	<u>20,448,927</u>	<u>185,110,255</u>
Budget Authority	18,391,794	61,754,270	15,745,496	81,468,425	20,999,504	198,359,489
Unspent Budget Authority	\$ <u>713,851</u>	\$ <u>3,354,005</u>	\$ <u>1,787,727</u>	\$ <u>6,843,074</u>	\$ <u>550,577</u>	\$ <u>13,249,234</u>
UNSPENT BUDGET AUTHORITY BY FUND						
General Fund	\$ 276,170	\$ 2,223,103	\$ 123,645	\$ 6,709,372	\$ 518,424	\$ 9,850,714
State Special Revenue Fund	435,200	254,109	144,842	109,591	2,388	946,130
Federal Special Revenue Fund	2,481	876,793	126,819	24,111	29,765	1,059,969
Enterprise Fund			1,071,976			1,071,976
Internal Service Fund			320,445			320,445
Unspent Budget Authority	\$ <u>713,851</u>	\$ <u>3,354,005</u>	\$ <u>1,787,727</u>	\$ <u>6,843,074</u>	\$ <u>550,577</u>	\$ <u>13,249,234</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF CORRECTIONS
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	ADMIN & FINANCIAL SERVICES		ADULT COMMUNITY CORRECTIONS		MONT CORRECTIONAL ENTERPRISES		SECURE CUSTODY FACILITIES		YOUTH SERVICES		Total	
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT												
Personal Services												
Salaries	\$	5,464,225	\$	10,641,866	\$	2,908,972	\$	25,991,382	\$	7,939,470	\$	52,945,915
Hourly Wages		34,126				525,975		289,901		27,183		877,185
Other Compensation		31,830										31,830
Employee Benefits		1,764,585		4,108,143		1,117,339		9,898,669		3,095,172		19,983,908
Personal Services-Other						30,801						30,801
Total		<u>7,294,766</u>		<u>14,750,009</u>		<u>4,583,087</u>		<u>36,179,952</u>		<u>11,061,825</u>		<u>73,869,639</u>
Operating Expenses												
Other Services		7,203,448		37,216,366		126,559		27,808,929		1,201,182		73,556,484
Supplies & Materials		2,497,527		948,677		3,016,729		5,354,331		883,066		12,700,330
Communications		210,754		282,016		46,869		182,052		84,524		806,215
Travel		167,222		156,400		35,707		189,931		105,547		654,807
Rent		515,437		1,733,700		80,839		201,296		217,707		2,748,979
Utilities		68		72,832		285,434		1,524,915		334,778		2,218,027
Repair & Maintenance		131,009		116,282		595,226		370,760		171,029		1,384,306
Other Expenses		227,605		89,752		1,563,518		185,385		71,710		2,137,971
Goods Purchased For Resale						4,735,682				2,977		4,738,659
Total		<u>10,953,070</u>		<u>40,616,025</u>		<u>10,486,563</u>		<u>35,817,599</u>		<u>3,072,520</u>		<u>100,945,777</u>
Equipment & Intangible Assets												
Equipment		36,098				55,737		441,585		14,128		547,548
Total		<u>36,098</u>				<u>55,737</u>		<u>441,585</u>		<u>14,128</u>		<u>547,548</u>
Capital Outlay												
Land & Interest In Land								93,301				93,301
Total								<u>93,301</u>				<u>93,301</u>
Grants												
Total												
Benefits & Claims												
From State Sources										3,641,278		3,641,278
From Federal Sources										15,955		15,955
Total										<u>3,657,233</u>		<u>3,657,233</u>
Transfers-out												
Fund transfers										2,662,374		2,662,374
Total										<u>2,662,374</u>		<u>2,662,374</u>
Other Post Employment Benefits												
Other Post Employment Benefits						196,242						196,242
Total						<u>196,242</u>						<u>196,242</u>
Total Expenditures & Transfers-Out	\$	<u>18,283,934</u>	\$	<u>55,366,034</u>	\$	<u>15,321,629</u>	\$	<u>72,532,437</u>	\$	<u>20,468,080</u>	\$	<u>181,972,114</u>
EXPENDITURES & TRANSFERS-OUT BY FUND												
General Fund	\$	17,214,565	\$	54,926,207	\$	2,140,857	\$	72,306,217	\$	19,418,905	\$	166,006,751
State Special Revenue Fund		700,582		439,827		1,732,968		100,000		790,622		3,763,999
Federal Special Revenue Fund		293,746				11,113		126,220		258,553		689,632
Enterprise Fund		42,866				7,187,358						7,230,224
Internal Service Fund		32,175				4,249,333						4,281,508
Total Expenditures & Transfers-Out		18,283,934		55,366,034		15,321,629		72,532,437		20,468,080		181,972,114
Less: Nonbudgeted Expenditures & Transfers-Out						(2,145,935)						(2,145,935)
Prior Year Expenditures & Transfers-Out Adjustments		(131,145)		(211,730)				(2,389)		17,338		(327,926)
Actual Budgeted Expenditures & Transfers-Out		18,415,079		55,577,764		17,467,564		72,534,826		20,450,742		184,445,975
Budget Authority		18,973,765		57,633,470		19,721,758		91,274,075		21,305,378		208,908,446
Unspent Budget Authority	\$	<u>558,686</u>	\$	<u>2,055,706</u>	\$	<u>2,254,194</u>	\$	<u>18,739,249</u>	\$	<u>854,636</u>	\$	<u>24,462,471</u>
UNSPENT BUDGET AUTHORITY BY FUND												
General Fund	\$	262,146	\$	1,956,077	\$	353,293	\$	18,726,025	\$	648,569	\$	21,946,110
State Special Revenue Fund		181,862		99,629		60,193				60,227		401,911
Federal Special Revenue Fund		114,678				165,186		13,224		145,840		438,928
Enterprise Fund						1,381,920						1,381,920
Internal Service Fund						293,602						293,602
Unspent Budget Authority	\$	<u>558,686</u>	\$	<u>2,055,706</u>	\$	<u>2,254,194</u>	\$	<u>18,739,249</u>	\$	<u>854,636</u>	\$	<u>24,462,471</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

Department of Corrections

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2010

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, and Federal Special Revenue) and certain liabilities of defined benefit pension plans and certain post employment healthcare plans. In applying the modified accrual basis, the department records:

- ◆ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ◆ Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary (Enterprise and Internal Service) and Fiduciary (Agency) fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment except for a state special revenue account that was transferred by the Department of Administration to another state agency, and not deleted from the Department of Correction's cash balance.

The department uses the following funds:

Governmental Fund Category

- ♦ **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- ♦ **State Special Revenue Fund** – to account for proceeds of specific revenue sources that are legally restricted to expenditures for specific state program purposes. The department has several state special revenue funds that account for activities including supervision fees, canteen, inmate welfare, restitution, income and interest from state lands, and third party contributions for juvenile placement.
- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include resources for the re-entry initiative, the Prison Rape Elimination Act, substance abuse treatment, school foods, and various education programs.

Proprietary Fund Category

- ♦ **Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. Department Internal Service Funds include the Montana State Prison industries training and cook/chill programs.
- ♦ **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. Department Enterprise Funds include Montana State Prison ranch and prison industries program.

Fiduciary Fund Category

- ♦ **Agency Fund** – to account for resources held by the state in a custodial capacity. Agency funds may be used on a limited basis for internal (to the State) clearing account activity but these must have a zero balance at fiscal year-end. The department agency funds include moneys belonging to inmates of facilities and restitution for victims.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends

cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for each of the fiscal years ended June 30, 2010, and 2009.

3. Direct Entries to Fund Balance

Direct entries to fund balances in the General, State Special Revenue, Federal Special Revenue Fund, Internal Service and Enterprise funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

4. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act (ARRA) was enacted by the United States Congress to preserve and create jobs and promote economic recovery.

The department of Corrections expects to receive federal funding from ARRA totaling approximately \$4,350,770. Of this amount, \$2,712,559 was appropriated in House Bill 645 of the 2009 Legislative Session, \$924,996 was awarded through other competitive or noncompetitive grants. Of these amounts, \$1,352,812 and \$211,722, respectively, were received by June 30, 2010 and \$1,352,812 and \$211,722, respectively, were spent by June 30, 2010. The department has not applied for any additional ARRA assistance.

5. Contractual Commitments

At June 30, 2009, and June 30, 2010, the department had contractual commitments for bond payments of approximately \$29.3 million and \$27.3 million, respectively. As long as the legislature provides funding for prerelease or drug treatment room and board costs, the department is contractually required to make bond payments on behalf of four prerelease and two drug treatment centers. These costs are then recovered through the center's monthly billing for inmate room and board. The department made bond payments totaling \$3.1 and \$3.3 million, respectively, in fiscal years 2008-09 and 2009-10.

6. Contingency Liability

Smith v. State of Montana and Department of Corrections was filed in Montana First Judicial District, Lewis and Clark County Docket No. ADV 2008-303. The case seeks declaratory and injunctive relief under 42. U.S.C. §1983 and the Montana Constitution regarding the constitutionality of Montana's death penalty execution

protocol. In opinion of counsel, the state has good defenses to the claim and outcome for damages is remote. However, an unfavorable result is possible which would result in a large award of attorney fees which cannot be estimated at this time.

7. Expenditures Recorded by the Judicial Branch

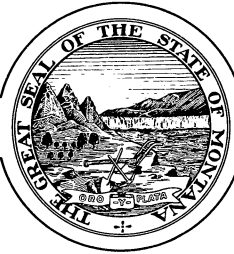
The department is appropriated funds for juvenile placement. A portion of these funds under §41-5-132, MCA is allocated to judicial branch districts for juvenile out-of-home placements, programs and services. At the end of the fiscal year any amounts allocated but not yet spent or obligated are transferred to the Judicial Branch as required by §41-5-132(5), MCA. In fiscal years 2008-09 and 2009-10, invoices from judicial branch districts exceeding the amounts obligated were received by the department after the transfer was made. These invoices were then paid by the Judicial Branch. As a result, \$11,905 in fiscal year 2008-09 and \$18,786 in fiscal year 2009-10 of General Fund expenditures are recorded on the state's accounting records to the Judicial Branch rather than on the department's records.

DEPARTMENT OF
CORRECTIONS

DEPARTMENT RESPONSE

DEPARTMENT OF CORRECTIONS

B-1



BRIAN SCHWEITZER, GOVERNOR

5 SOUTH LAST CHANCE GULCH

STATE OF MONTANA

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September 10, 2010

RECEIVED

SEP 10 2010

LEGISLATIVE AUDIT DIV.

Tori Hunthausen, CPA
Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena, MT 59620-1705

Re: Response to Legislative Audit Recommendations

Dear Ms. Hunthausen:

Thank you for the opportunity to respond to the financial compliance audit report for the Department of Corrections. We have reviewed the recommendations contained in the report and our responses are as follows:

RECOMMENDATION #1:

We recommend the department pay the bond payment through an appropriation as required by the Montana Constitution or request legislative approval to use and advance.

Response:

Do not concur. The Department does not concur that it paid money out of the treasury without an appropriation or that it violated state accounting policy or the Montana Constitution when it made advance bond payments to the bond trustees. The Department asserts that it has for the past 13 years properly accounted for the bond payments utilizing this prepayment method (advancing payments) consistent with state accounting policy and legislative appropriations. In the future, however, the Department will change its accounting practice for the bond payments. Pursuant to the changed accounting practices, instead of recording its payments to the trustees as an advance, the Department will record the payments as a reduction in its appropriation. This change should resolve the concerns presented by the Legislative Audit Division.

Ms. Tori Hunthausen
September 9, 2010
Page 2

RECOMMENDATION #2:

We recommend the department:

A: Implement procedures to identify and document relationships among department employees.

B: Develop policies to ensure job roles are adjusted to mitigate the risk associated with relationships between department employees.

Response:

Concur. Department staff will develop internal controls to monitor relationship risks.

RECOMMENDATION #3:

We recommend the department:

A: Provide training to fiscal staff on budget laws applicable to the department.

B: Comply with State accounting policy on expenditure abatements.

Response:

Concur. MCE management staff will provide staff training on budget laws to comply with state accounting policy on expenditure abatements.

RECOMMENDATION #4:

We recommend the department accurately reflect expenses for industry program purchase and use of materials.

Response:

Concur. Changes have already been made to the business process of recording transfers from the Industries warehouse to the responsible program.

RECOMMENDATION #5:

We recommend the department monitor the progression of the general appropriations bill to ensure the bulk food rates are included.

Response:

Concur. MCE management staff will work with legislative staff to ensure approved rates are documented in the final written version of the general appropriations act.

Ms. Tori Hunthausen
September 9, 2010
Page 3

RECOMMENDATION #6:

We recommend the department complete its implementation of internal control procedures by testing its internal controls, as required by state accounting policy.

Ms. Tori Hunthausen
September 9, 2010
Page 3

Response:

Concur. A testing schedule will be finalized and implemented by 6/30/2011.

RECOMMENDATION #7:

We recommend the department comply with state law concerning a weed management agreement with the district weed board.

Response:

Concur. The weed plan will be updated bi-annually and will specify the responsibilities of both the Department and the District Weed Board. MCE staff will ensure the plan is signed by both parties.

RECOMMENDATION #8:

We recommend the department adopt rules related to monitoring level 3 sexual offenders and day reporting programs as required by state law.

Response:

Concur. The department has finalized the rules and will publish the proposed rules in October, 2010.

We appreciate the legislative staff time devoted to this audit. They were professionals throughout the process and their willingness to assist with any issue was exceptional. We look forward to working with your office in the future.

Sincerely,

A handwritten signature in black ink, appearing to read "Mike Ferriter". The signature is fluid and cursive, with the first name "Mike" and last name "Ferriter" clearly distinguishable.

Mike Ferriter
Director